March 13, 1995

DOCKET NO. G-011/M-94-960

ORDER GRANTING VARIANCE WITH CONDITION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of a Petition from Peoples Natural Gas Company, a Division of UtiliCorp United Inc., for a Variance from Minn. Rules, Part 7825.2700, Subpart 5

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PROCEDURAL HISTORY

On September 12, 1994, the Commission issued its ORDER APPROVING PETITION WITH MODIFICATION in Docket No. G-011/M-93-1092 (the entitlements docket).[1] In that Order the Commission approved a request for conversion of entitlements submitted by Peoples Natural Gas Company (Peoples or the Company). The conversion reflected the pipeline's restructured services under Federal Energy Regulatory Commission (FERC) Order 636. The Order also allowed Peoples to recover its share of the pipeline's transition costs in the Company's Purchased Gas Adjustment (PGA). Finally, the Order approved Peoples' designation of four types of transition costs, including producer demand payments, as commodity charges and the allocation of these charges to firm and interruptible sales customers.

On October 17, 1994, Peoples filed a petition assigned to the current docket. The Company requested a variance from Minn. Rules, Part 7825.2700, subp. 5, to allow the Company to calculate the demand adjustment portion of its PGA using Annual Normalized Sales Volumes.

On December 12, 1994, the Department of Public Service (the Department) filed comments. The Department recommended that the Commission approve the variance request with the condition that demand costs be charged only to General Service (GS) customers.

On December 21, 1994, Peoples filed comments in opposition to the Department's proposed condition.

On February 16, 1995, the matter came before the Commission for consideration.

[1] In the Matter of a Request by Peoples Natural Gas Company for Approval to Change Its Pipeline Demand Entitlements and to Recover the Associated Costs in Its Monthly Purchased Gas Adjustment Pursuant to Federal Energy Regulatory Commission Order 636.

FINDINGS AND CONCLUSIONS

I. THE COMPANY'S PETITION

The Company sought a variance from Minn. Rules, Part 7825.2700, subp. 5, which governs the method of computing the demand adjustment portion of the PGA. The rule provides in relevant part:

> The adjustment must be computed using test year demand volumes for three years after the end of the utility's most recent general rate case test year. After this time period, the demand adjustment must be computed on the basis of annual demand volume.

Peoples' most recent rate case test year ended December 31, 1992. Docket No. G-011/GR-92-132.

Peoples asked to be allowed to compute the demand adjustment using Annual Normalized Sales Volumes--the actual sales volumes for the twelve-month period ending June 30, 1994, adjusted for weather. These sales volumes would be used for the 1994 PGA true-up.

The Company explained that the annual sales volumes as of June, 1994, are significantly different from the rate case test year volumes and would result in more accurate recovery.

The Company also stated that the Commission's September 12, 1994, Order in the entitlements docket allowed Peoples to use interruptible sales volumes in addition to GS volumes when allocating demand costs to customers through the PGA.

II. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommended granting Peoples' variance request with the condition that all of the Company's demand costs henceforth be charged only to its GS (not interruptible) customers.

The Department agreed with Peoples that the Commission's September 12, 1994, Order in the entitlements docket allowed the Company to assign revenue responsibility for demand costs to interruptible sales as well as to firm sales customers. As a result of this change, rates for interruptible customers rose by 20 to 30 percent. Most interruptible sales customers avoided the steep rate increase by switching to transportation service.

If the Company's variance request were granted without any other change, interruptible sales customers would receive another rate increase. This further increase would result in more interruptible migration to transportation service, and to higher rates for remaining sales customers.

The Department stated that demand costs are incurred only for GS, not interruptible, customers. Interruptible sales customers should not have to share the cost of demand charges and thus undertake the payment of costs they have not imposed on the system.

For these reasons, the Department recommended that a condition be placed on the granting of the variance: Peoples' interruptible sales customers should henceforth be relieved of revenue responsibility for demand costs. While this condition would result in a rate increase for GS customers, the increase would not be great. Allocating demand costs solely to GS customers would have the benefits of bringing rates in closer alignment with costs and avoiding further rate shock for interruptible sales customers.

According to the Department, assigning the sole revenue responsibility for demand costs to GS customers would help achieve rate stability. The Department urged the Commission to avoid the situation in which dramatic rate increases could have the effect of eliminating the interruptible sales class. If the Commission wishes to consider elimination of the interruptible sales customer class, the issue should be pursued in the context of a general rate case, not a miscellaneous filing.

III. COMMISSION ACTION

A. The Request for Variance

Requests for rule variances must be analyzed under the three criteria of Minn. Rules, Part 7829.3200. In this case the Commission finds that Peoples' request for variance fulfills the three rule criteria, if the Department's recommended condition is adopted.

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.

Requiring Peoples to base its demand adjustment upon the test year demand volumes from its last rate case would burden Peoples and its customers. Allowing the Company to substitute Annual Normalized Sales Volumes would result in closer timing of cost recovery, because this method could be put into effect for the 1994 PGA recovery. If allowed to use Annual Normalized Sales Volumes, the Company would not lose the time value of money while it waited for the 1995 true-up PGA recovery.

2. Granting the variance would not adversely affect the public interest.

While granting the variance would result in slight rate increases, the Department found that resulting rates would be only slightly higher than rates in effect before the Commission's September 12, 1994, decision in the entitlements docket.

Under Minn. Rules, Part 7825.2700, subp. 5, Peoples would move from rate case sales volumes to normalized sales to calculate the demand adjustment for the next true-up, regardless of the Commission's action. Rates would increase at that time to account for lost interruptible sales. Since denying the variance could only postpone the rate increase but could not prevent it, the public interest is not harmed by granting the variance, **if** the public interest is protected by the Department's recommended condition, discussed below.

3. Granting the variance would not conflict with standards imposed by law.

The Commission finds that granting the variance would not conflict with any standards imposed by law.

B. The Condition for Granting the Variance

In its September 12, 1994, Order in the entitlements docket, the Commission allowed Peoples to recover most FERC Order 636 transition costs as commodity costs, that is, as costs recoverable from both firm and interruptible sales customers. Stranded 858 costs, also the result of FERC Order 636, were allocated as demand costs.

The focus of the September 12, 1994, Order was therefore on the allocation of transition costs. Peoples' petition had gone further, however, by proposing that all demand costs, including pipeline demand costs, be allocated to both firm and interruptible sales customers. This part of Peoples' petition was not addressed in the September 12, 1994, Order. Peoples argues that the proposal was approved by the Commission, because it was part of the petition which the Commission approved. Since the September 12, 1994, Order could be reasonably construed as approving Peoples' proposed treatment of pipeline demand costs, the Commission hereby revisits this issue in this proceeding.

For two reasons, the Commission finds that Peoples' proposal regarding cost recovery of demand costs should be addressed in the Company's next general rate case, not in a miscellaneous filing. Peoples' proposal is a rate design issue with major potential impact. Also, this is the first time the Commission has considered a proposal to recover non-transition demand costs from both interruptible and firm sales customers. A major rate design issue of first impression should be carefully considered in the context of the Commission's rate design scheme in general rate case proceedings.

The results of the implementation of Peoples' proposal also indicate that a change of this nature merits more developed consideration than can be offered in a miscellaneous filing. The increase in rates for interruptible sales customers has resulted in the migration of customers who represent 90% of sales to transportation service. As customers have switched to transportation, there have been fewer sales volumes over which to spread recovery of fixed costs. As a result, rates for all remaining sales customers have increased.

Peoples maintains that it has few if any true interruptible customers since FERC Order 636, and that it has not received any complaints from interruptible sales customers since implementing the Commission's September 12, 1994, Order. Peoples therefore argues that little harm comes from migration of interruptibles to transportation due to the rate increase. The Commission agrees with the Department that the effective elimination of the interruptible class should not come about from implementation of a miscellaneous filing. If Peoples wishes to propose the elimination of this class, this proposal should be examined in light of other rate design decisions in a general rate case proceeding.

IV. CONCLUSION

The Commission grants Peoples its request for a variance from Minn. Rules, Part 7825.2700, subp. 5 to allow the Company to compute the demand adjustment using Annual Normalized Sales Volumes. The granting of the variance is conditioned upon the Company's using only GS customers' Annual Normalized Sales Volumes to recover the following demand costs: TF-12B, TF-5, TFX, Field TF, SMS Charge, Stranded 858, SBA, TCR, and Peak Shaving. For the current PGA year, these sales volumes amount to 17,726,904.7 Mcf. The Company may use all sales classes' Annual Normalized Sales Volumes to recover Order 636 transition costs, which will continue to be assigned to commodity rates. For the current PGA year, these sales volumes amount to 18,541,468 Mcf.

ORDER

1. The Commission grants Peoples its request for a variance from Minn. Rules, Part 7825.2700, subp. 5 to allow the Company to compute the demand adjustment using Annual Normalized Sales Volumes. The granting of the variance is conditioned upon the Company's using only GS customers' Annual Normalized Sales Volumes to recover the following demand costs: TF-12B, TF-5, TFX, Field TF, SMS Charge, Stranded 858, SBA, TCR, and Peak Shaving. For the current PGA year, these sales volumes amount to 17,726,904.7 Mcf. The Company may use all sales classes' Annual Normalized Sales Volumes to recover Order 636 transition costs, which will continue to be assigned to commodity rates. For the current PGA year, these sales volumes amount to 18,541,468 Mcf.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)